

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 6616**  
**BILL NUMBER:** HB 1247

**NOTE PREPARED:** Dec 9, 2003  
**BILL AMENDED:**

**SUBJECT:** Tax Credits for Donations to Foundations.

**FIRST AUTHOR:** Rep. Oxley  
**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:**  **GENERAL**  
 **DEDICATED**  
 **FEDERAL**

**IMPACT:** State

**Summary of Legislation:** The bill applies the income tax credit for charitable contributions to institutions of higher education to a charitable contribution to a community foundation to the extent that the donor restricts the use of the contribution to providing college scholarships to students attending institutions of higher education located in Indiana.

**Effective Date:** January 1, 2005.

**Explanation of State Expenditures:** The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this expansion of the college contribution tax credit. These expenses presumably could be absorbed given the DOR's existing budget and resources.

**Explanation of State Revenues:** The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individual and corporate taxpayers that make charitable contributions to community foundations for Indiana college scholarships. The revenue loss due to this bill is indeterminable. The magnitude of the loss would depend on the pool of community foundations to which taxpayers could, in the future, make contributions for Indiana college scholarships. It would also depend on the extent to which taxpayers who don't claim the existing college contribution tax credit respond to the opportunity to make creditable scholarship contributions through a community foundation. Currently, there are 74 community foundations and 22 county affiliates of community foundations in Indiana. Reportedly, all of these organizations currently provide college scholarships. The fiscal impact of this bill could potentially begin in FY 2006.

*Background:* Under current law, individuals may claim an AGI Tax credit for charitable contributions to

Indiana higher education institutions or to any corporation or foundation organized and operated solely for the benefit of an institution. The credit is limited to 50% of charitable contributions up to a maximum of \$100 for a single taxpayer or \$200 for taxpayers filing a joint return. Current law also permits a corporation to claim a credit for such contributions equal to 10% of its total Corporate Adjusted Gross Income (AGI) Tax liability up to \$1,000. The bill expands the credit to include charitable contributions to a community foundation to be used to provide scholarships to students attending Indiana higher education institutions. Community foundations are tax-exempt organizations established under Section 501(c)(3) of the Internal Revenue Code. According to the *Indiana Grantmakers Alliance*, the principal function of a community foundation is to build permanent endowed funds for philanthropic purposes. The Indiana Grantmakers Alliance reports that currently 74 community foundations and 22 county affiliates of community foundations operate in Indiana. The Alliance also reports that all of these organizations provide college scholarships. According to income tax return data for tax year 2001, 85,955 individual taxpayers claimed approximately \$8.3 M in credits for contributions to Indiana higher education institutions. The number of individual filers claiming the credit has increased since 1996 by an average of 1.4% annually; and the credits claimed has increased during the same period by an average of 2.1% annually. Corporate taxpayers claimed \$124,031 in college contribution credits in tax year 2000. Corporate filers claiming the credit have declined since 1997 by an average of 10.8% annually; and total credits claimed by corporate filers has declined by an average of 14.2% annually.

Revenue from the AGI Tax on corporations is deposited in the state General Fund. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund. Since the change is effective beginning in tax year 2005, the fiscal impact would begin in FY 2006.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:** Jenny Kloer, Indiana Grantmakers Alliance, (317) 630-5200; OFMA income tax databases for 1996-2001.

**Fiscal Analyst:** Jim Landers, 317-232-9869.